

Making Tax Digital - Questions and Answers

What is 'Making Tax Digital'?

Making Tax Digital (MTD) is part of HMRC's plan to transform its current system into one of the most digitally advanced tax administrations in the world. HMRC's vision is that paper tax returns will be abolished and digital records will enable taxpayers to update HMRC frequently on their income position, thus having a 'real-time' idea of their tax liabilities presented to them in their digital tax account. The intention is that a taxpayer should not have to tell HMRC something that HMRC should already know.

What will MTD mean to me?

That depends; MTD will impact the business taxes of sole traders, partnerships and companies. But, more pressingly, MTD for VAT (MTDfV) will apply from 1 April 2019 - please see our [MTDfV frequently asked questions factsheet](#) for details.

MTD for business

HMRC wants to abolish annual tax returns. Unless you are exempt, you will need to update HMRC digitally every quarter (or more frequently if you choose) with details of your income and expenditure. These updates are to be filed no later than one month after the end of the quarter via MTD compatible software.

HMRC recognises that there will need to be an 'end of year' report to make accounting and tax adjustments and to confirm that the data supplied throughout the year is correct. Therefore, a final adjustment is also to be made on the earlier of ten months after the year end, or 31 January following the year of assessment.

MTD for Business (MTDfB) will not come in to force until at least April 2020 and,

as yet, we don't know which businesses will be impacted first or what form it will take. There are however ongoing pilot schemes, which we and our clients are participating in. It appears that initial adoption may also be voluntary for some businesses.

MTD for individuals

For those without business and property income, it is the Government's ambition that information will be obtained from various third parties such as banks, so avoiding the need for an annual tax return or quarterly reporting.

What are the advantages for me to using MTD?

The future for record keeping is definitely digital. Many businesses, large and small, could see great advantages from moving to cloud based accounting systems, including the ability to track sales and costs in real time and automate manual tasks such as invoice input and bank reconciliations. Additionally, your accountant has access to the same financial information and can monitor your margins and profitability, and provide proactive advice on tax, accounting and business issues when you need it most.

Questions and Answers

The only certainty we currently have around MTD relates to VAT, the rules for which were published in Finance Bill (No.2) 2017. The remainder of this Q&A is based on extracts from previous draft legislation and consultation documents.

Do I have a digital tax account

Yes. These are already in place, although you may not have activated yours yet. This needs to be done via the Government Gateway at: www.gov.uk/personal-tax-account

Do I still need to keep annual accounts?

Currently for companies the answer will be yes. However, for unincorporated entities, once they enter MTD, the answer is no, you won't. You will need to keep accounts, but these need not be annual. They can be quarterly to tie in with reporting to HMRC or they can cover another period that suits the particular business. But... consider if you want to raise finance, move home, sell your business or just manage your finances: there are more reasons than just tax legislation to prepare annual accounts.

Do I need to change my accounting software?

Accounting records will need to be kept digitally and every business will need to be using a package which will communicate with HMRC's system. This rules out a shoebox of receipts and manual ledger books. Spreadsheets can be used as long as filing is through MTD compatible software.

Again, tax legislation should not be the driving force to change the way you maintain your business administration. The latest cloud accounting products can automate bookkeeping processes, offer far more visibility over your finances: debts owed, suppliers due, cashflow and profitability reports, and integrate with other business tools such as: credit control, stock management, websales, emails, etc.

Am I going to need to pay my tax earlier?

At present, no. There is an undertaking not to change the current tax payment dates, at least for the time being. However, HMRC has proposed an option to voluntarily pay tax earlier, known as pay as you go (PAYG). It is therefore possible that a move to real time reporting is a precursor to the alignment of tax payment dates to match the earning of the profits they are paid on.

I have other sources of income. How will this work?

Your personal digital tax account will be populated with other information that HMRC holds such as salary details, bank and building society interest, state benefits, etc.

There may well be remaining sources of income such as foreign income or capital gains which will require notification to HMRC, potentially by making adjustments to your digital account by the existing tax return deadline; 31 January following the end of the year of assessment.

What about partnerships and jointly held property?

Currently each partner and/or property owner must make a return of their partnership or property income. In future only a single nominated partner or landlord will have to provide the information for the partnership. This information will feed directly into individual partners' or landlords' digital tax accounts.

Do I have to do this?

There are few exemptions. However, if exempt from MTD, you are exempt from both digital record keeping requirements and making quarterly updates.

Exemptions include: 'digitally excluded' people and will include individuals whose income from both property and trade is less than a lower level, which is yet to be confirmed. There are also some further detailed exemptions by entity type.

Can you sort this out for me?

Yes. We sit on accounting and tax advisory panels, have regular communications with HMRC and accountancy software developers, and have clients in the pilot; we are perfectly placed to assist in your transition to MTD.

Contact us:

For further information and to find out how we can help you, please contact one of our local office experts:

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